

The Mid-Session Review

A Fact Sheet

On June 26, the Office of Management and Budget (OMB) released the Mid-Session Review (MSR) of the FY 2001 budget. The MSR contains new surplus projections for fiscal years 2000-2010 and a revised set of budget proposals. This fact sheet provides a brief summary of the Mid-Session document. The complete report can be found at: <http://www.gpo.gov/usbudget>.

The projected current services unified surplus for the period 2001-2010 is now \$4.2 trillion, \$1.3 trillion higher than the Administration's February estimates. After removing Social Security, the Medicare Hospital Insurance (HI) trust fund, and the Postal Service from the unified budget totals, the President allocates the remaining \$1.5 trillion for a Medicare prescription drug benefit, targeted tax cuts, a new \$500 billion "Reserve for America's Future," and expanded health care coverage. His revised plan eliminates all publicly-held debt by 2012 — one year earlier than the February budget.

Current Services Projections

- ! **Fiscal year 2000.** The unified surplus is now projected to be \$224 billion in 2000, the largest surplus ever in dollar terms and the largest as a percentage of GDP since 1948.
- ! **Fiscal year 2001.** The unified surplus grows to \$239 billion in 2001. The on-budget surplus (excluding the HI trust fund) is estimated to be \$49 billion.
- ! **Fiscal years 2001-2010.** Over ten years, the unified surplus rises to \$4.2 trillion and the on-budget surplus is projected to be \$1.5 trillion.

Table 1: OMB Mid-Session Current Services Estimates

(\$ billions)	2000	2001	2002	2003	2004	2005	2001-05	2001-10
Unified Surplus	224	239	279	295	324	360	1,497	4,193
Off-budget:								
Social Security	150	160	177	191	205	226	960	2,317
Medicare (HI)	24	30	36	36	38	39	179	403
Postal service	-2	-(*)	-1	-(*)	-1	-(*)	-2	3
On-budget	52	49	67	68	81	95	360	1,470

Revised Budget Proposals

The President allocates the \$4.2 trillion unified surplus as shown on the table below. The major changes since February for the ten-year period (2001-2010) include: (1) removing the \$403 billion Medicare HI trust fund surplus from the on-budget totals, (2) adding \$58 billion to the President's prescription drug plan, (3) dropping \$33 billion in Medicare cuts and reforms, (4) reducing the Medicare solvency transfers from \$299 billion to \$115 billion; and (5) a \$500 billion "Reserve for America's Future."

Table 2: Revised Budget Framework in FY 2001 Mid-Session Review

(\$ billions)	2001	2001-05	2001-10
Current Services unified surplus	239	1,497	4,193
Social Security surplus	160	960	2,317
Medicare trust fund surplus	30	179	403
Postal service	-(*)	-2	3
Remaining on-budget surplus	49	360	1,470
Surplus allocation:			
Medicare solvency reserve	31	45	115
Medicare prescription drug benefit (w/o reforms)	2	79	253
Medicare reforms	-(*)	-7	-29
<i>On-budget</i>	-(*)	-3	-12
<i>Off-budget (HI)</i>	0	-4	-17
Medicare provider payment restorations	4	21	40
<i>On-budget</i>	1	8	14
<i>Off-budget (HI)</i>	3	13	26
Expanded health coverage	1	17	90
Tax cuts	-(*)	54	263
Other changes	-16	-38	-91
Reserve for America's Future	20	123	500
Debt service	2	47	290
Residual on-budget surplus	9	27	49
Total debt reduction 1/	228	1,210	2,912

1/ Includes moving Social Security and Medicare off-budget, Medicare solvency transfers, interest earnings on proposals and the impact of Medicare programmatic proposals.

- ! ***Social Security off-budget.*** The entire \$2.3 trillion Social Security surplus is off-budget in the President's plan. His proposal to transfer a portion of the interest savings to Social Security, which begins in 2011, preserves solvency through 2057. Investing a portion of the surplus in equities extends solvency to 2068.¹

- ! ***Medicare off-budget.*** The MSR includes a new proposal to move the entire Medicare Hospital Insurance (HI) trust fund off-budget, ensuring that its \$403 billion ten-year surplus is not used for other purposes and that payroll taxes are dedicated entirely for Medicare.

- ! ***Medicare solvency to 2030.*** Between 2001 and 2010, the President proposes to make \$115 billion of solvency transfers to the HI trust fund. The amount of the transfers is equivalent to the total interest savings resulting from devoting the Medicare surplus to debt reduction over the same ten-year period. The net effect of the proposal is to extend the life of the HI trust fund from 2025 to 2030.

- ! ***Medicare prescription drug benefit.*** The President's proposal for a prescription drug benefit has been revised and expanded to include a specific catastrophic policy that limits out-of-pocket spending to \$4,000, provides immediate payments to managed care plans for prescription drug benefits, and starts the program one year earlier. The plan makes these changes while maintaining the beneficiary premium at the same levels as the original plan. The revised drug plan costs \$79 billion over five years and \$253 billion over the period 2001-2010.

- ! ***Medicare reforms.*** The Mid-Session Review includes \$29 billion in net Medicare reforms over the next ten years, including proposals to increase competition and reduce fraud and abuse. Approximately \$33 billion in provider cuts proposed in the February budget have been dropped.

- ! ***Medicare Balanced Budget Act provider payment restorations.*** The budget adds \$21 billion over five years and \$40 billion over ten years to scale back or eliminate the BBA payment reductions for Medicare and Medicaid providers.

- ! ***Health coverage initiative.*** The framework continues to allocate \$90 billion over ten years to expand health coverage to low-income families and children, people between jobs, and vulnerable older America not yet eligible for Medicare.

- ! ***Tax Cuts.*** The Mid-Session Review allocates \$263 billion for net tax cuts, preserving the President's proposals from the February budget.

- ! ***Discretionary spending.*** Discretionary spending is held at the current services (inflated-adjusted) baseline, which adds about \$32 billion to the President's February request.

- ! ***Reserve for America's Future.*** The budget sets aside \$500 billion over ten years for

¹The off-budget surplus is reduced slightly due to the indirect effects of the Medicare buy-in proposal and the impact of military service credits on net Social Security outlays.

retirement savings proposals, targeted tax cuts, investments in education, research, health, and the environment, and further debt reduction. The reserve also provides a margin of insurance in case the long-term budget projections prove to be too optimistic.

- ! ***Other proposals.*** Other proposals from the February budget save \$91 billion over the next ten years. These include \$30 billion in new initiatives for agriculture, SSI, food stamps, and education which are offset by \$121 billion in new tobacco taxes, customs user fees, and other mandatory program changes.

- ! ***Debt reduction.*** The President's plan would lock in \$2.9 trillion of debt reduction between now and 2010 and eliminate the debt by 2012. Debt reduction in the President's budget comes from saving the Social Security and Medicare HI surpluses, the Medicare solvency transfers, and the residual on-budget surplus. The debt held by the public is on track to be \$2.4 trillion lower in 2000 than was projected when the President took office.

Prepared by Senate Budget Committee Democratic Staff

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